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SERVICE DATE - JULY 26, 2000

SURFACE TRANSPORTATION BOARD

STB Ex Parte No. 552 (Sub-No. 4)

RAILROAD REVENUE ADEQUACY - 1999 DETERMINATION

Decided: July 19, 2000

One Class I railroad, Grand Trunk Western Railroad Inc., is found to be revenue adequate, having a return on investment that exceeds the target cost of capital for 1999.

BY THE BOARD:

This annual determination of railroad revenue adequacy is made in accordance with the standards developed in *Standards for Railroad Revenue Adequacy*, 364 I.C.C. 803 (1981), *Standards for Railroad Revenue Adequacy*, 3 I.C.C.2d 261 (1986), and *Supplemental Reporting of Consolidated Information for Revenue Adequacy Purposes*, 5 I.C.C.2d 65 (1988). Pursuant to those procedures, which are essentially mechanical, a railroad will be considered revenue adequate under 49 U.S.C. 10704(a) if it achieves a rate of return on net investment (ROI) equal to at least the current cost of capital for the railroad industry. Although certain interests have questioned the standards that have been used for many years, we perform the annual revenue adequacy exercise because we have been directed to do so by Congress.

In *Railroad Cost of Capital - 1999*, STB Ex Parte No. 558 (Sub-No. 3) (STB served June 12, 2000), we determined that the 1999 railroad industry cost of capital was 10.8%. By comparing this figure to the 1999 ROI data obtained from the carriers' Annual Report R-1 Schedule 250 filings, we have made revenue adequacy calculations for each of the Class I freight railroads that were in operation as of December 31, 1999.

A summary of the ROI's for all Class I railroads is set forth in the appendix to this decision. We find one carrier, Grand Trunk Western Railroad Inc., to be revenue adequate for 1999. Our findings with respect to the Class I carriers will be final on the effective date of this decision.

Environmental and Energy Considerations

We conclude that this action will not significantly affect either the quality of the human environment or the conservation of energy resources.

Regulatory Flexibility Analysis

Pursuant to 5 U.S.C. 603(b), we conclude that our action in this proceeding will not have a significant economic impact on a substantial number of small entities. The purpose and effect of the action is merely to update the annual railroad industry revenue adequacy finding. No new reporting other regulatory requirements are imposed, directly or indirectly, on small entities.

It is Ordered:

This decision is effective July 26, 2000.

By the Board, Chairman Morgan, Vice Chairman Burkes, and Commissioner Clyburn.

Vernon A. Williams
Secretary

APPENDIX

Railroad	ROI
Burlington Northern and Santa Fe Railway Company	9.5%
CSX Transportation, Incorporated	3.8%
Grand Trunk Western Railroad, Incorporated	25.4%
Illinois Central Railroad Company	10.0%
Kansas City Southern Railway Company	6.4%
Norfolk Southern Railroad Company	5.2%
Soo Line Railroad Company	2.5%
Union Pacific Railroad Company	6.8%